



Emerald Emerging Markets Case Studies

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Article information:

To cite this document:

Monica Singhanian, Navendu Sharma, Rohit J. Yagnesh, Nimit Mehra, (2014) "Hero cycles: operating breakevens", Emerald Emerging Markets Case Studies, Vol. 4 Issue: 2, pp.1-8, <https://doi.org/10.1108/EEMCS-2014-4444>

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Hero cycles: operating breakevens

Monica Singhanian, Navendu Sharma, J. Yagnesh Rohit and Nimit Mehra

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It was August 2010 and Ananth Munjal – son of Om Prakash Munjal, the Chairman of Hero Cycles – was on the verge of entering the family business. Having completed his management degree from an Ivy League American University, he had already worked for about four years in diverse companies in various capacities. He was now eager to apply the experience gained to take the company, set up by his father and uncles, to new heights.

Ananth realized that to better understand the implications of various strategies employed by Hero Cycles, it was essential to have a deep and sound knowledge of the Indian Bicycle industry and competitors of Hero Cycles. Ananth first asked Dev Dutta, Chief Strategy Officer (CSO) to prepare a summary of the company's past performance. Dev was initially skeptical of Ananth and had written him off as a brash youngster. But Ananth's decision to not take any steps before having a fair idea of the industry and its competitors won him over. Dev assigned his subordinate, Santosh Negi, to prepare a presentation that analyzed the company and its industry, to be sent to Ananth within two days. This presentation should discuss the company with a view on the immediate threats to the company, and the opportunities that it should exploit to reach new heights. This presentation should also highlight the competition to Hero Cycles Limited from the Indian bicycle industry.

Industry

The Indian bicycle industry is an important contributor to the world bicycle manufacturing industry. India is the one of the largest players, with sales of around 12 million units a year. But it primarily caters to domestic demand. In India, bicycles are the principal mode of transport for low- and middle-income families. The major market players of the Indian bicycle industry, along with their market share[1], as on 31 October 2012, are Hero Cycles: 40 percent; TI: 22 percent; Avon: 17 percent; Atlas: 10 percent.

Although India is the second largest manufacturer of bicycles in the world, there is a wide gulf between India and China's bicycle industry, which has sales of around 50 million units a year[2]. To effectively compete with the Chinese bicycle industry, it is vital for Indian companies to exploit their export capacities through innovation, costing and pricing strategies.

As is true for many other industries, the existing companies in the bicycle industry have a cost advantage when compared to new prospective firms. Furthermore, the industry is characterized by high fixed costs and low product differentiation. The bicycle industry does not have cheap substitutes, i.e. the switching cost of substitutes such as motorcycles, is very high. Hence, the level of competition within the industry is very high. The entire bicycle industry also faces competition from various public modes of transport, like buses. Thus, the companies in the industry have a limited consumer base, and compete vigorously with each other to target this base. Furthermore, the industry relies heavily on global macroeconomic circumstances and seasonal conditions. Hence, the output is adjusted according to these external factors. To better understand this, during the monsoon season it is evident that people prefer public transport, like the bus or the metro, to the bicycle. Furthermore, during times of recession,

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a reduction in the output of the bicycle industry is to be expected. Contrary to the case with motorcycles, the public modes of transport are cheap substitutes to the bicycle industry. But an increasingly health-conscious Indian public still considers the use of bicycles as a viable means of exercise. Also, the Indian consumer is now well-versed in his social responsibility, and treats bicycles as a better alternative to the exhaust fumes of the buses and the autos. Because of this, the Indian bicycle industry is not as adversely affected by public modes of transport as expected.

The Indian bicycle industry was de-licensed in July 1997. Since then, there has been free entry into the market, increasing competition between various companies. Moreover, dumping of inexpensive bicycles in Indian markets by countries like China, which have access to cheap labor and subsidized raw materials, has further intensified the competition. Another major characteristic of this capital-intensive industry is lack of innovation, leading to stagnation in manufacturing processes. But to survive in a competitive industry, there is a growing need to embrace innovation. This would lead to a strain on financial resources of the firms, necessitating the reconsideration of pricing strategies. Additionally, the bicycle industry has high fixed costs and an exit barrier. Target consumers of this industry face a wide range of choices and, generally, have access to complete information about the various products in the market. In fact, the buyers' demand depends only on the disposable income of the household.

Policies developed by the Indian Government Act as the framework within which various industries should operate. The bicycle industry also has various guidelines to follow. Bicycle manufacturers cannot increase the prices of their products without prior approval of the government. Also, the distribution margin, that covers the commission agent, sole distributors and dealers, should not exceed 15 percent the of sale price. Additionally, the Indian Government has set in place certain policies and standards for the bicycle industry. These are presented in Table I.

Furthermore, international technical standards are formulated by the International Organization for Standardization (ISO). The technical committee set up by the ISO for the bicycle industry – TC 149[3] – has published various standards.

Hero Cycles Ltd – company profile

Hero Group was established by the four Munjal brothers, the late Dayanand Munjal, Satyanand Munjal, Brijmohan Lall Munjal and Om Prakash Munjal[4]. Hailing from pre-independence Pakistan, they set up a business of bicycle spare parts in Amritsar in 1944. Following a tremendous growth in their business, post-independence they shifted their base to Ludhiana. They started a bicycle unit, Hero Cycles, in 1956. Initially having a capacity of 25 cycles per day, Hero Cycles experienced a remarkable growth, becoming India's largest bicycle manufacturer by 1975. Hero Cycles was the first to introduce the concept of just-in-time inventory, consequently saving time and improving productivity. In 1984, Hero Group joined Honda Motors of Japan to form Hero Honda Motors Ltd, which soon became one of the market leaders in motorcycle sales in India. In 1986, they joined forces with Showa Manufacturing Corporation,

Table I Safety standards for the bicycle industry

<i>Indian standard</i>	<i>Most recent year of amendment</i>	<i>Provisions for</i>	<i>International standard</i>
IS 532	2006	Bicycle tube valves and valve-tubing – specification (third revision)	ICS 43.150
IS 623	2003	Bicycle – bicycle frames – specification (third revision)	ICS 43.150
IS 624	2003	Bicycle – rims – specification (fourth revision)	ICS 43.150
IS 625	2006	Bicycle – handle bars – specification (third revision)	ICS 43.150
IS 626	2009	Bicycle – seat pillars – specification (third revision)	ICS 43.150
IS 628	2008	Bicycles – pedal assembly – specification (second revision)	UDC 629.118.3.031.36
IS 629	2010	Specification for bicycle hub assembly – R type (second revision)	UDC 629.118.3.012.54
IS 630	2005	Bicycle spokes (plain) and nipples for spokes – specification	ICS 43.150
IS 1131	2010	Bicycle bottom bracket axle – specification (third revision)	ICS 43.150

further increasing their production capacity. Also, in the same year, it entered the Guinness Book of World Records as the largest bicycle manufacturer in the world[5]. Hero Cycles Ltd manufactures cycles, rims, free wheels, hubs and chains and cold-rolled strips as its main products. The company has long portfolio of different ranges of cycles, manufacturing around 132 models for all customers. It also manufactures cycle parts for its own requirements. As well as fulfilling the needs of the domestic market, it also exports its products to foreign markets.

A variety of factors have influenced the growth of Hero Cycles Ltd. Abundant cheap labor and local availability of raw materials involved in the production of bicycles (steel, aluminum, etc.) helped the company to achieve economy on a sustained basis and enabled Hero Cycles to make its presence felt in 89 countries. The quality of products manufactured and Hero Cycles' marketing capabilities have ensured that it is one of the few firms from India with a global scale of operations. Rising incomes, changing life styles, availability of cheap customer finance and growing awareness on pollution and its ill effects, have contributed to its tremendous growth. It has also successfully identified emerging consumer needs over time, and has made judicious use of innovation through its well-funded R&D division. However, Hero Cycles Ltd also has unrealized potential in foreign markets, which can be facilitated through support from the government, which has already awarded recognition to the company's R&D center. But, it has its share of drawbacks too. It does not have access to foreign technology and innovations. Also, its goods are comparatively inexpensive. Various threats that Hero Cycles faces are: rising prices of various raw materials used in manufacturing cycles like steel, and increasing competition from Chinese manufacturers and from the unorganized sector manufacturers, who offer goods at cheap prices.

Competitor analysis

- *TI Cycles of India*[6]: TI Cycles was formed in 1949. Over the last 60 years it has built significant skills in engineering and metallurgy, fully supported by its crucial research and development division. Its profitable operations are demonstrated by the uninterrupted dividend since 1954. It has high standards of quality and is certified with ISO 9001:2000, Occupation Health and Safety Assessment Series 18001-2007 and ISO 14001-2004.
- *Avon Cycles*[7]: incorporated in 1951, Avon Cycles is the flagship of the Avon Group. The bicycle facility produces around two million cycles annually. The product range includes 100+ descriptions of pedal bicycles, half a dozen models of battery-powered bikes, a Hi-Power series of luxury bicycles and a Keep Fit series of home workout solutions. It is the largest manufacturer exporter from India, which gives an indication of the prominence of its brand name in foreign markets. Furthermore, the Government of India recognizes Avon as an "export house."
- *Atlas Cycles*[8]: Atlas Cycles India began operations in 1951, manufacturing 12,000 units in its first year. It has since grown both in size and brand, and exports to 35 nations. It employed a vertical integration strategy by opening a steel tube mill in Gurgaon to meet its requirements for steel tube. Furthermore, Atlas Cycles prides itself on its high-quality standards, as is apparent from its ISO 9001:2000 certifications[9].

The numbers' game

Cut to the last quarter of 2010, Ananth now had a good overview of the Indian bicycle industry and his company Hero Cycles Ltd. But the analysis of any company is incomplete without looking at its financials. He next called for the Chief Financial Officer, Basesh Patel, a long-time confidante of his father. He asked Basesh to brief him on, and give him access to, the financials of the company.

The relevant items from the balance sheet and income statement for the past decade are shown in Exhibit 1 and Exhibit 2[10]. Moreover, to critically examine historic trends in sales revenues, expenses incurred and the profitability of the firm, he decided to go back to records from the

1990s. He asked Basesh to provide him with the income statements of financial years prior to the last decade. Knowing the difficulty in accessing records dating as far back as the 1990s, Basesh responded with an unsure nod and headed to the Financial Archives Center. He knew that Ananth particularly wanted certain relevant items of the income statements of the company for the required period and did not want to drown him in a pool of unnecessary information. These relevant excerpts from the income statements are presented in Exhibit 3.

With the pertinent financial data, Ananth looked for trends in profitability for the past decade. He observed that, though there was a steady rise in sales over the past ten years^[11], this upward movement was not reflected in the profitability of the company. In fact, there was no observable trend in profitability over the past decade (see Tables V and VI Exhibits 4 and 5). But the previous year did show a sudden increase in profitability.

The road ahead

Ananth did not want to maintain the status quo or sit back and enjoy the fruits of his forefathers' hard work and success. In fact he dreamt of expanding the company abroad. He believed that the products of Hero Cycles, in overseas markets, came second to those manufactured by the Chinese bicycle industry. He had the maturity and wisdom to realize that his company would survive in the world market only after successful restructuring to enhance transparency and increase efficiency. Another crucial facet that required his attention was the modernizing of the business processes through appropriate technology transformation, by incorporating technology into the production processes, thereby minimizing human error. Ananth had started working when the global economic recession set in, and had seen its negative impact on the people he knew closely. He was hence risk-averse in nature and so it was crucial for him to consider the impact of the strategies he wanted to employ, on various types of risks associated with the business. He also believed in learning from past mistakes.

Basesh Patel had been a loyal member of the Hero Cycles family for the past 15 years. His conservative approach to business had seen him rise through the ranks, having been a part of the company through the 1997 Asian Financial Crisis, the bursting of the IT bubble in 2001 and the global credit crunch of 2008. His advice was always sought after, even by the relatively autocratic leadership style of Om Prakash Munjal. He was also a very close family friend and was there to see Ananth grow up, knowing him better than most. It was obvious that Ananth looked up to him as a guide and mentor.

Ananth thus called Basesh to his office, three days after reviewing the financials, to discuss the new direction the company should take. Basesh knew that his role, as assigned to him by Om Prakash, was to temper Ananth's enthusiasm with his experience. Ananth told Basesh that he fundamentally wanted the company to capture foreign markets. Basesh cautioned him that before actually taking such a step, it was essential to estimate the potential profit and calculate necessary sales to make such an investment profitable. Any strategy would be incomplete if the breakeven sales figure was not established before its implementation. Also, to achieve the necessary sales, certain expenses would be necessary. So it was critical to have a better understanding of the cost structure and categorization of costs into fixed costs^[12] and variable costs^[13].

Ananth also wanted to be cautious with the risk associated with various strategies. With regard to this, he spoke about the different types of leverage, in particular about operating leverage as an indicator of business risk^[14]. He intended to study its trends over time, and its relation with various quantitative measures, like breakeven sales and margin of safety. Basesh, in turn, wanted Ananth to first forecast the financials to determine if there was a need to adopt any new strategies.

Ananth also wanted to find out which areas of the firm needed attention – whether it was operating efficiency, efficiency in utilization of assets or financial leverage. To accomplish this, he advocated the usage of DuPont analysis^[15]. His idea of the utilization of DuPont equation was also echoed by Basesh, who understood that return on equity (ROE) is dependent on the

above-mentioned factors. DuPont analysis could be used to determine which strategies and processes have been more profitable for the company, and what processes can be implemented. At the end of their meeting, Ananth and Basesh were filled with enthusiasm and a sense of purpose with their minds buzzing with ideas, to achieve the goals that had been set.

Two days later, Ananth asked Basesh to set up a strategy team. This team was to comprise of qualified individuals from diverse fields – including finance and strategy. Ananth emphasized that he wanted people who could think out of the box and were not afraid of speaking their minds. He confided in Basesh that, in contrast to his father, he wanted to adopt a democratic style of leadership. The purpose of this strategy team, headed by Ananth, was to analyze the decisions taken by his predecessors, to better understand the impact of strategies he was considering.

Notes

1. Relevant data available at: <http://business.mapsofindia.com/top-brands-india/top-bi-cycle-brands-in-india.html#sthash.FbefOCJo.dpuf>
2. Relevant data available at: <http://crisil.com/Ratings/Commentary/CommentaryDocs/cycle-ind0103.pdf>
3. Data available at: www.iso.org/iso/home/store/catalogue_tc/catalogue_tc_browse.htm?commid=53030
4. Data available at: www.rediff.com/money/2007/jun/11bspec.htm
5. Data available at: www.herocycles.com/about.php
6. Relevant data available at: www.tiindia.com/
7. Relevant data available at: www.avoncycles.com/
8. Relevant data available at: www.atlascycles.co.in/
9. Relevant data available at: www.myatlascycle.com/quality-policy.html
10. Available numeric data is in the units: INR cr. But for convenience, it has been converted into US\$ million. The constant conversion rate for the same is US\$1 = INR 55.
11. Except for the financial year 2008, where there was a reduction in sales. It can be inferred that this was due to the global economic crisis of 2008. In general, the financial year 2008 can be considered to be an aberration.
12. Fixed costs (or sunk costs) are those costs that are independent of production output.
13. On the other hand, variable costs are those costs that vary with the production output of the firm.
14. The business risk of the firm is dependent on the firm's regulatory environment, labor relations, the market share with respect to its competitors, etc.
15. Involves the calculation of ROE, which corresponds to the profitability of the firm. Firms aim to maximize ROE.

Keywords:

Breakeven analysis,
Leverage,
DuPont analysis,
Forecasting,
Emerging market,
India,
China,
Road vehicle engineering,
Competitive strategy,
Financial management

Exhibit 1

Table EI Condensed balance Sheet for financial years 2001-2010

Year	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
Share capital	7.24	7.24	7.24	7.24	7.24	7.24	7.24	7.24	7.24	7.24
Reserves	31.5	40.83	39.76	52.75	61.5	73.26	90.29	101.72	111.42	155.99
Shareholders' funds	38.74	48.07	47	59.99	68.74	80.5	97.53	108.96	118.66	163.23
Secured loans	9.44	11.88	10.44	10.6	9.95	8.5	10.07	9.21	11.41	9.25
Unsecured loans	19.44	16.04	16.62	17.68	22.12	20.01	21.42	36.94	32.5	38.88
Total debt	28.88	27.92	27.06	28.28	32.07	28.51	31.49	46.15	43.91	48.12
Total liabilities	67.62	75.99	74.06	88.27	100.81	109.01	129.03	155.11	162.57	211.35
Gross block	47.07	54.24	61.24	63.18	65.06	66.99	69.65	72.7	72.19	71.36
Accumulated depreciation	14.69	17.26	20.47	23.56	28.05	31.99	35.61	38.91	41.18	40.87
Net block	32.38	36.98	40.78	39.61	37.01	35.01	34.04	33.79	31.02	30.49
Capital work in progress	0	0	0	0	0.63	0.79	0.38	0.18	0.17	1.1
Investments	12.45	17.11	17.79	27.17	40.98	51.85	69.88	84.43	87.05	103.94
Inventories	10.79	9.29	10.45	10.96	11.82	13.94	14.65	20.13	14.14	15.95
Sundry debtors	31.08	27.81	32.67	30.13	33.24	33.83	40.52	35.79	4.35	44.1
Cash and bank	2.07	3.27	1.03	1.15	1.4	1.26	0.4	2.76	2.78	2.36
Loans and advances	19.74	23.89	22.44	20.94	14.47	15.59	8.32	15.48	21.15	58.66
Total current assets	63.68	64.26	66.57	63.18	60.93	64.61	63.89	74.15	81.82	121.06
Current liabilities	30.74	30.97	30.03	24.66	23.09	29.83	35.97	35.32	31.58	32.15
Provisions	10.16	11.39	15.23	11.34	10.34	13.52	3.56	3.17	2.93	10.25
Total current liabilities	40.9	42.36	45.26	35.99	33.43	43.34	39.53	38.5	34.51	42.4
Current assets	22.78	21.9	21.31	27.18	27.49	21.27	24.36	35.65	47.31	78.66
Deferred tax	0	0	5.82	5.69	5.31	0.09	0.36	1.05	2.98	2.84
Total assets	67.62	75.99	74.06	88.27	100.81	109.01	129.03	155.11	162.57	211.35
Contingent liabilities	11.34	13.29	28.11	26.32	27.72	30.04	30.62	25.82	16.84	16.53

Note: All figures in US\$ million

Exhibit 2

Table EII Condensed income statements for financial years 2001-2010

Year	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
Sales turnover	167.79	174.47	177.97	189.54	213.05	227.16	266.57	255.02	291.93	314.41
Excise duty	7.58	8.52	12.52	10.26	11.62	15.6	18.62	16.76	14.81	10.32
Net sales	160.21	165.95	165.45	179.28	201.43	211.56	247.95	238.26	277.12	304.1
Other income	2.17	4.63	6.08	13.36	8.09	19.59	16.36	13.13	8.55	39.28
Stock adjustments	0.14	0.35	0.77	1.64	0.97	0.09	0.98	3.08	3.99	0.71
Total income	162.23	170.22	170.76	194.28	210.5	231.24	265.3	254.46	281.68	344.09
Expenditure	0	0	0	0	0	0	0	0	0	0
Raw materials	110.36	110.04	113.54	130.93	152.98	153.73	188.59	185.46	206.1	221.01
Power and fuel cost	5.84	5.85	6.32	6.95	6.89	7.81	8.77	7.93	7.97	9.21
Employee cost	7.52	8.6	8.26	9.16	8.41	10.16	10.01	10.81	10.15	11.07
Other manufacturing expenses	6.58	6.54	6.2	6.4	6.93	7.41	8.35	4.87	4.9	5.74
SG&A expenses	10.73	13.31	15.38	14.47	13.77	16.73	17.61	21.32	22.37	25.86
Miscellaneous expenses	5.49	3.24	2.68	3.63	1.73	16.95	3.07	2.57	2.56	1.83
Total expenditure	146.52	147.58	152.38	171.54	190.71	212.76	236.41	232.96	254.05	274.72
Operating profit	15.71	22.64	18.38	22.74	19.78	18.47	28.89	21.51	27.63	69.37
Interest	3.93	3.59	3.03	2.4	2.36	2.88	3.21	3.81	5.17	3.59
Gross profit	11.78	19.05	15.35	20.34	17.42	15.59	25.68	17.69	22.47	65.78
Depreciation	2.59	2.84	3.33	3.99	4.17	4.1	3.88	3.8	3.86	3.49
Profit before tax	9.2	16.21	12.02	16.35	13.25	11.49	21.8	13.9	18.6	62.29
Provision for direct tax	2.85	4.18	2.79	2.14	3.65	3.77	3.61	2.24	3.98	9.42
Fringe benefit tax	0	0	0	0	0	0.12	0.16	0.07	0.1	0
Deferred tax	0	0	0.07	0	0.39	5.4	0.27	0.69	4.03	0.14
Reported net profit	6.35	12.03	9.17	14.22	9.99	13	18.3	12.28	10.49	53.01
Extraordinary items	0.01	0.09	0.21	0.78	0.57	4.98	5.03	2.89	0.32	1.87

Note: All figures in US\$ million

Exhibit 3

Table EIII Relevant excerpts from financial archives – Hero Cycle Ltd

	June 1987	June 1988	March 1989	March 1990	March 1991	March 1992	March 1993	March 1994	March 1995	March 1996	March 1997	March 1999	March 2000
Sales	20.0909	25.3309	23.9400	37.3291	42.0364	56.9036	66.4873	72.4691	84.1309	97.5855	103.8582	126.4855	150.1164
Raw material expenses	16.3873	20.6364	19.8800	30.1836	34.0618	45.1491	51.8727	54.4418	63.8164	71.9073	74.2927	83.0727	99.9600
Packaging expenses	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0036	1.3909	1.7545	1.7636	1.8000	0.0000
Purchase of finished goods	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.6909	0.8164
Power, fuel and water charges	0.4309	0.4873	0.4636	0.6800	0.8200	1.1073	1.4927	1.8036	2.1309	2.5236	2.8327	4.1000	5.1255
Compensation to employees	0.6491	0.7964	0.7582	1.1400	1.4127	1.8309	2.1673	2.4582	3.0873	3.8127	4.4764	6.0764	7.0218
Indirect taxes	0.0055	0.0055	0.0091	0.0055	0.0073	0.0255	0.9927	1.4473	2.5891	3.0436	3.0527	4.8436	10.2291
Royalties, technical know-how fees, etc.	0.0000	0.0000	0.0018	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Lease rent and other rent	0.0018	0.0018	0.0036	0.0091	0.0091	0.0109	0.0127	0.0127	0.0127	0.0145	0.0145	0.0800	0.0927
Repairs and maintenance	0.2309	0.2836	0.3073	0.3291	0.4509	0.6382	0.8927	1.1564	1.3291	1.3818	1.6564	1.9345	2.3327
Insurance premium paid	0.0345	0.0327	0.0600	0.0655	0.0636	0.1091	0.1527	0.1582	0.1964	0.1873	0.2236	0.3127	0.3382
Outsourced professional jobs	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0073
Selling and distribution expenses	0.9345	0.7873	1.1018	1.5164	1.9036	3.2836	3.4618	3.3527	3.5091	4.8291	4.7564	4.9691	8.5964
Travel expenses	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.1473
Miscellaneous expenses	0.1764	0.1600	0.1455	0.2545	0.3691	0.7964	0.4491	0.6582	0.8673	1.1436	1.3309	5.3345	1.7382
Interest paid	0.0564	0.2000	0.2927	0.4800	0.4782	1.0436	1.2436	1.0709	1.1836	1.4164	2.1564	2.6236	2.6145
Depreciation	0.2764	0.2127	0.3200	0.4873	0.4545	1.2036	1.6400	1.1145	1.8945	1.1127	1.2309	1.8873	2.2418
Provision for direct taxes	0.4418	0.5636	0.0982	0.9618	1.0236	0.7982	1.5527	1.7345	0.6255	1.2727	1.9545	2.5455	3.6364

Note: All figures in US\$ million

Exhibit 4

Table EIV	Profitability for the financial years 2001-2010									
<i>Year</i>	<i>FY 01</i>	<i>FY 02</i>	<i>FY 03</i>	<i>FY 04</i>	<i>FY 05</i>	<i>FY 06</i>	<i>FY 07</i>	<i>FY 08</i>	<i>FY 09</i>	<i>FY 10</i>
Net profit margin (%)	3.96	7.25	5.54	7.93	4.96	6.14	7.38	5.15	3.79	17.43
Operating profit margin (%)	9.36	12.98	10.33	12.00	9.28	8.13	10.84	8.43	9.47	22.06
ROE (%)	16.39	25.03	19.50	23.70	14.53	16.15	18.77	11.27	8.84	32.48

Exhibit 5

Table EV	Components of operating expenses – Hero Cycle Ltd	
<i>Sl. no.</i>	<i>Operating expenses</i>	
1	Royalties, technical know-how fees, etc.	
2	Lease rent and other rent	
3	Repairs and maintenance	
4	Insurance premium paid	
5	Outsourced professional jobs	
6	Interest paid	
7	Depreciation	
8	Provision for direct taxes	
9	Raw material expenses	
10	Packaging expenses	
11	Purchase of finished goods	
12	Compensation to employees	
13	Indirect taxes	
14	Selling and distribution expenses	
15	Travel expenses	
16	Power, fuel and water charges	
17	Miscellaneous expenses	

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1. SinghaniaMonica, Monica Singhania, GuptaPuneet, Puneet Gupta. 2016. First Telecom – India 2.0 strategy. *Emerald Emerging Markets Case Studies* 6:2, 1-11. [[Abstract](#)] [[Full Text](#)] [[PDF](#)]